Q. **Volume 1: Holyrood Overview**

Hydro outlines on page 5, lines 24-27, and on page 6, lines 1-3, that it has included projects in the 2021 Capital Budget Application related to steam production at the Holyrood Thermal Generating Station ("Holyrood TGS"), and that these projects are required to ensure that the Holyrood TGS is available for generation until March 31, 2022. The projects noted by Hydro include the following:

- Boiler Condition Assessment and Miscellaneous Upgrades - $3,000,000
- Overhaul Unit 3 Boiler Feed Pump East - $373,000
- Overhaul Unit 1 Turbine and Valves - $8,026,600
- A portion of the $2,000,000 included in the 2021 Budget for Thermal In-Service Failures may be attributed to steam production.

Please provide the estimated impact on revenue requirement and rates assuming that these projects are completed in 2021 and Holyrood TGS is removed from generation as of March 31, 2022.

A. On September 28, 2020, Newfoundland and Labrador Hydro ("Hydro") informed the Board of Commissioners of Public Utilities of its current plan to extend the life of the Holyrood Thermal Generating Station ("Holyrood TGS") until March 31, 2023. This extended service life may require additional expenditures to ensure the Holyrood TGS continues to operate reliably in the service of Hydro's customers on the Island Interconnected System.

The estimated impact of Holyrood TGS capital investment on Hydro's revenue requirement and resulting rates can vary materially depending on the in-service date of the assets (i.e., which month the project is completed), the test year used in Hydro's next General Rate Application ("GRA"), and the amortization period used in computing depreciation. Hydro notes that as the

Holyrood TGS nears the end of its useful life, capital investment required to maintain reliable operation would normally be amortized over a very short time frame.

The projects listed above total approximately $13.4 million. While the amount of return and recovery of capital costs will vary based on the in-service date of the assets and the timing of Hydro's next GRA, for the purpose of this response Hydro has computed the impact of recovering $13.4 million from customers in a single year.

Using the cost allocation ratios for generation demand from Hydro's 2019 Test Year cost of service study, the cost would be allocated 94% to Newfoundland Power and 6% to the Island Industrial Customer Group.[1] This allocation would result in a revenue requirement increase of $12.6 million for Newfoundland Power, and an estimated retail rate increase of approximately 1.7%. For the Island Industrial Customer group, this scenario would result in a revenue requirement increase of approximately $0.8 million which would result in an average rate increase of approximately 1.8%.

Hydro is currently investigating the potential of a regulatory deferral account in its next GRA for Holyrood TGS capital costs with an abbreviated useful life as well as costs to be incurred upon the Holyrood TGS's decommissioning which would then be recovered over a longer period of time. This would result in a significantly lower revenue requirement impact than that noted above.

[1] Through the Rural Deficit Allocation, Rural Labrador Interconnected Customers would be allocated approximately 0.2% of this revenue requirement, or approximately $30,000.